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SUBJECT: DAC ANNUAL AID REVIEW - AUSTRALIA

REF: STATE 236162

1. SUMMARY: IN HALF-DAY SESSION, AUSTRALIAN DELEGATION, HEADED BY DIRECTOR-GENERAL L. W. JOHNSON OF NEW AUSTRALIAN DEVELOPMENT ASSISTANCE AGENCY (ADAA), GAVE CONCISE, HIGHLY USEFUL PRESENTATION ON CURRENT DEVELOPMENT POLICIES AND NEW TRENDS IN COOPERATION PROGRAMS. INITIATIVES INCLUDE: (A) CREATION OF AND ADDITIONAL STAFFING AUTHORITY FOR ADAA; (B) REAFFIRMATION OF ACCEPTANCE OF 0.7 PERCENT ODA TARGET WITH 1974-75 ODA LEVEL PROJECTED AT 0.59 PERCENT GNP; (C) DECISION TO CONTRIBUTE EST. \$52 MILLION IN ADDITIONAL ASSISTANCE TO MSA'S; (D) ESTABLISHMENT OF AN EXPORT BANK; AND (E) DECISION TO SET UP A FEASIBILITY STUDY FUND TO ENCOURAGE UNCLASSIFIED

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PRIVATE COMPANIES TO UNDERTAKE INVESTMENT STUDIES IN LDC'S. END SUMMARY.

2. DAC CHAIRMAN WILLIAMS PRESIDED WITH U.S. AND EC AS EXAMINING DELEGATIONS. FACTUAL AND SHORT RESPONSES TO SECRETARIAT'S QUESTIONS AND THOSE TABLED BY EXAMINERS

RESULTED IN INFORMATIVE EXCHANGE. MISSION APPRECIATES ADDITIONAL COMMENTS/QUESTIONS (CONTAINED REFTEL) WHICH GREATLY ASSISTED U.S. PARTICIPATION. AUSTRALIA'S RESPONSES TO SECRETARIAT'S QUESTIONS AND THOSE POSED BY EXAMINERS/OTHER DELEGATIONS FOLLOW USING SECRETARIAT OUTLINE.

3. MEDIUM-TERM PLANNING: IN RESPONSE TO REFTEL QUESTIONS PARAS 11-12, AUSTRALIA RESPONDED THAT NEW ORGANIZATIONAL STRUCTURE, ADAA, WILL STRENGTHEN GOA'S CAPABILITY IN FORWARD PLANNING AND PROGRAMMING AREAS. POLICY AND PROGRAMMING BRANCHES HAVE BEEN ESTABLISHED SEPARATELY FROM OPERATIONAL UNITS OF NEW AGENCY AND STAFFING ACTION NOW IN PROGRESS. CURRENTLY DO HAVE MULTI-YEAR SCHEME FOR SOUTH PACIFIC AREA AND DO PREFER ROLLING-TYPE PLAN. GAO CAN FORWARD FUND. CONCERNING PLANS FOR GEOGRAPHICAL ALLOCATION, AUSTRALIA STATED THAT ITS AID RESOURCES CAN MAKE ONLY MODEST CONTRIBUTION TO WORLD NEEDS, THUS DEGREE OF REGIONAL CONCENTRATION REQUIRED. MAJOR PART OF AUSTRALIA'S AID WILL CONTINUE TO GO TO PAPUA NEW GUINEA (PNG) AND TO ASIAN AND PACIFIC NEIGHBORS. REP SAW SOME SCOPE IN NEXT FEW YEARS FOR CHANGES IN EMPHASIS ARISING FROM CHANGING CIRCUMSTANCES IN PNG AND INDONESIA AND GREATER VOLUME OF AID BECOMING AVAILABLE. EC EXAMINER LABELED DISTRIBUTION 'UNBALANCED' WITH TWO THIRDS OF PROGRAM GOING TO PNG. THOUGH MORE COMPLIMENTARY OF PROGRAM WHICH, IN GENERAL, IT CONSIDERED TO BE EXCELLENT, U.S. ASKED FOR MORE DETAILS OF COMPOSITION PNG PROGRAMS. AUSTRALIA RESPONDED THAT PNG PROGRAM NOW IN TRANSITION FROM STRICTLY PROGRAM/BUDGET SUPPORT TYPE TO SECTOR/PROJECT ASSISTANCE.

4. U.S. QUESTIONED INCLUSION IN ODA OF TERMINATION/ RETIREMENT BENEFITS FOR FORMER PNG EMPLOYEES. AUSTRALIA POINTED OUT THAT INCLUSION BOTH WITHIN SPIRIT AND RULES UNCLASSIFIED

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OF DAC ODA DEFINITION INDICATING THE EMPLOYEES WERE NOT EMPLOYED BY GOA BUT BY PNG.

5. IN RESPONSE TO QUESTIONS BY SWEDEN CONCERNING SUPPORT TO AFRICAN DEVELOPMENT FUND AND ASSISTANCE TO INDOCHINA, AUSTRALIA INDICATED THAT IT HAS ATTENDED AFDF MEETINGS BUT STILL NOT IN POSITION TO MAKE STATEMENT ON MEMBERSHIP OR POSSIBLE FINANCIAL CONTRIBUTION. AUSTRALIA CONTRIBUTES DIRECTLY TO INDOCHINA COUNTRIES INCLUDING SOUTH VIETNAM AND NORTH VIETNAM, THOUGH IT MENTIONED THAT LATTER PRESENTED SUBSTANTIAL DIFFICULTIES AS DOES INCREASES TO PROGRAM IN CAMBODIA DUE TO CURRENT UNSTABLE SITUATION. AUSTRALIA WILL BE EXPANDING ITS PROGRAM IN LACS. JAPANESE COMPLIMENTARY OF FOCUS IN SOUTH PACIFIC, ASIAN AREA AND ASIAN REGIONAL ORGANIZATIONS, BUT QUESTIONED

PLANS FOR INDIA AND OTHER COMMONWEALTH ASIAN COANTRIES.
AUSTRALIA MENTIONED THAT ITS MAJOR CONTRIBUTION TO
SUB-CONTINENT IS IN FOOD AID CATEGORY AND TO REQIONAL
RESEARCH CENTERS IN AREA. FOOD AID IN 1974 PROGRAMMED
TO BANGLADESH AND SRI LANKA WHOSE NEED GREATEST WHEREAS
IN 1973 FOOD AID PRIORITY GIVEN TO SAHEL REGION.

6. MOST SERIOUSLY AFFECTED LDC'S: ALLOCATION OF ENTIRE
\$A40 MILLION (\$US 52 MILLION) HAS NOT BEEN DECIDED.
PROVISIONAL ALLOCATION HAS BEEN MADE OF \$A27.5 MILLION.
OF THIS, \$A1 MILLION WILL GO TO INTERNATIONAL AGRI-
CULTURAL RESEARCH INSTITUTES AND \$A2.7 MILLION DIS-
TRIBUTED THROUGH THE FAO INTERNATIONAL FERTILIZER
SCHEME. AMOUNTS ALLOCATED TO SPECIFIC COUNTRIES IS
\$A23.8 MILLION OF WHICH 6.0 MILLION TO PNG, \$A12 MILLION
TO INDIAN SUB-CONTINENT PLUS SRI LANKA AND AFRICAN
COUNTRIES, WHICH ARE NOT NORMALLY RECIPIENTS OF GOA
AID, ARE EXPECTED TO RECEIVE ABOUT \$A6.0 MILLION.

7. INCLUSION OF PNG IN \$A40 MILLION ADDITIONAL SUPPORT
TO U.N. SPECIAL PROGRAM DUE TO FACT THAT PNG HEAVILY
DEPENDENT ON IMPORTS OF OIL AND FOOD, AND THUS SUBJECT
TO VERY SEVERE INFLATION. BEARING IN MIND DEPENDENCE OF
PN/G ON AUSTRALIAN AID, REP SAID IT APPEARS REASONALLE
TO REGARD CONTRIBUTION OF \$A6.0 MILLION AS PART OF RE-
SPONSE TO SPECIAL PROGRAM.
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8. RESPONDING TO SECRETARIAT QUESTION III(I/II),
AUSTRALIA SAID THERE WAS NO CLEAR PICTURE ON FUTURE
REQUIREMENTS BY PNG FOR FINANCIAL ASSISTANCE. NEW
ARRANGEMENTS HAVE BEEN CONCLUDED BETWEEN GPNP AND
BOUGAINVILLE COPPER COMPANY BUT FULL DETAILS HAVE NOT
YET BEEN ANNOUNCED, AND FUTURE RETURNS TO PNG REVENUE
ARE LIKELY TO BE HEAVILY DEPENDENT ON FUTURE COPPER
PRICES. BOTH GOA AND GPNG WISH TO DIVERSIFY SOURCES
OF AID TO PNG IN ORDER TO REDUCE DEPENDENCE, AND IT IS
AIM OF BOTH GOVERNMENTS TO PROMOTE A MORE SELF-RELIANT
ECONOMY IN PNG. AUSTRALIA MENTIONED INCREASING INTEREST
BY U.K., JAPAN, WEST GERMANY, AS WELL AS WORLD BANK AND
UNDP.

9. ESTABLISHMENT OF NEW AID AGENCY: AGENCY WILL BE
CORPORATE BODY WITH FOLLOWING FUNCTIONS: (A) TO ADMIN-
ISTER PROVISION BY AUSTRALIA OF AID FOR DEVELOPING
COUNTRIES, INCLUDING PROVISION OF MULTILATERAL AID TO
LDC'S; (B) TO ADMINISTER DEVELOPMENT ASSISTANCE FUND
ESTABLISHED BY ACT AS A TRUST ACCOUNT FOR AID EXPENDI-
TURES; (C) TO ADVISE MINISTER ON MATTERS RELATING TO AID.
DIRECTOR-GENERAL WILL HAVE POWER AND STATUS OF PERMANENT
HEAD OF GOVERNMENT DEPARTMENT AND WILL REPORT DIRECTLY
TO MINISTER FOR FOREIGN AFFAIRS. THE INTERDEPARTMENTAL

COMMITTEE ON AID INSTITUTED UNDER PREVIOUS ADMINISTRATIVE ARRANGEMENTS WILL CONTINUE TO OPERATE TO ENSURE COORDINATION OF AID POLICY. WITH REGARD TO RELATIONS WITH INTERNATIONAL AGENCIES, THE ADAA IS RESPONSIBLE FOR THE AID ASPECTS OF AUSTRALIAN PARTICIPATION IN WORK OF THESE AGENCIES.

10. ESTABLISHMENT OF EXPORT BANK: CHARTER OF THE EXPORT PAYMENTS INSURANCE CORPORATION WILL BE EXPANDED TO ENABLE CORPORATION TO FUNCTION AS AN EXPORT BANK' AND LEGISLATION FOR THIS PURPOSE IS EXPECTED TO BE INTRODUCED DURING PRESENT SESSION OF PARLIAMENT SO THAT BANK WILL BE IN OPERATION BY END 1974 OR EARLY 1975. CORPORATION WILL PROVIDE FINANCE TO FACILITATE EXPORT OF AUSTRALIAN MACHINERY AND CAPITAL EQUIPMENT AND PROVISION OF RELATED SERVICES. AIM WILL BE TO PROVIDE FINANCE WHEN IT IS NOT UNCLASSIFIED

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OTHERWISE AVAILABLE FROM COMMERCIAL SOURCES. CORPORATION IS EXPECTED TO BE ESPECIALLY CONCERNED WITH FINANCING EXPORTS TO DEVELOPING COUNTRIES. FINANCE WILL BE AVAILABLE ON BOTH A SUPPLIER AND BUYER CREDIT BASIS AND IS EXPECTED TO BE AVAILABLE FOR DISBURSEMENT DURING MANUFACTURING PERIOD, WHERE APPROPRIATE, AS WELL AS IN THE POST SHIPMENT PERIOD. PAYMENTS INSURANCE COVER WILL NOT BE REQUIRED ON LOANS, BUT IN CASE OF MIXED FINANCING ARRANGEMENTS INVOLVING TRADING BANK FUNDS IT IS PLANNED THAT UNCONDITIONAL REPAYMENT GUARANTEES WILL BE AVAILABLE TO COOPERATING TRADING BANKS. BANK'S ACTIVITIES NOT REGARDED AS ODA; HOWEVER, GOA CONSIDERS THAT BENEFITS TO LDC'S WILL ACCRUE THROUGH INCREASED STIMULUS TO PRIVATE FLOWS.

11. FEASIBILITY STUDY FUND FOR PRIVATE INVESTMENT OVERSEAS: THE IFF IS FUND OF \$A250,000 DESIGNED TO ENCOURAGE COMPANIES TO UNDERTAKE INVESTMENT FEASIBILITY STUDIES IN LDC'S WHERE THE PROPOSED INVESTMENT WILL BE IN ACCORDANCE WITH SOCIAL/ECONOMIC DEVELOPMENT PLANS AND INVESTMENT POLICIES OF HOST COUNTRIES, PREFERABLY ON JOINT VENTURE BASIS FAVORABLE TO OWNERSHIP AND CONTROL OF THE ENTERPRISE BY NATIONALS OF COUNTRIES IN WHICH IT IS MADE. AIM IS NOT TO SUBSIDIZE PROFITABLE PROJECTS BUT TO ENCOURAGE FIRMS TO UNDERTAKE STUDIES WHERE COST OF STUDY COULD DETER AUSTRALIAN FIRMS, ESPECIALLY SMALL AND MEDIUM-SIZED COMPANIES. FUND PROVIDES A TAXABLE GRANT IN FORM OF REIMBURSEMENT OF 60 PERCENT OF ELIGIBLE EXPENDITURES INCURRED OVERSEAS IN FEASIBILITY STUDY PAYABLE ONLY IF STUDY RESULTS IN INVESTMENT NOT GOING AHEAD. GRANTS WILL BE LIMITED TO A MAXIMUM OF \$A25,000 PER STUDY. WHILE FUND WILL NOT BE FINANCED FROM AID BUDGET IT IS RECOGNIZED AS A FORM OF INDIRECT ASSISTANCE TO DEVELOPING COUNTRIES AS, IN AUSTRALIAN

VIEW, IT ENCOURAGES GREATER INVESTMENT IN SUCH COUNTRIES.
DEPARTMENT OF OVERSEAS TRADE WILL ADMINISTER THE FUND.

12. IN RESPONSE TO U.S. REQUEST FOR CURRENT VIEWS SDR
"LINK," REP STATED THAT CONSIDERING CURRENT ECONOMIC
INSTABILITY NO ONE IS SURE WHAT ROLE SDR'S WILL PLAY;
AUSTRALIA AWAITING EVENTS.
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13. U.S. ASKED IF THERE IS LIKELIHOOD AUSTRALIA WOULD
INCREASE FERTILIZER PRODUCTION (SEE REFTTEL, PARA 9).
AUSTRALIA RESPONDED THAT NITROGENOUS FERTILIZER COULD
BE INCREASED BUT THAT PHOSPHATIC FERTILIZER COULD BE
INCREASED ONLY WITH DIFFICULTY. INCREASE IN LATTER
WOULD BE CONSIDERED COUNTER-PRODUCTIVE BY GOA AS SUCH
INCREASE WOULD COMPETE WITH SOME LDC PRODUCTION.

14. FOOD AID: AMOUNT OF LAND USED FOR WHEAT PRODUCTION
IS VIRTUALLY DETERMINED BY MARKET. SINCE AROUND 75 PER-
CENT OF AUSTRALIAN WHEAT PRODUCED IS EXPORTED, INTER-
NATIONAL WHEAT PRICES ARE THE MOST IMPORTANT INFLUENCE.
POLICY MEASURES HAVE BEEN APPLIED IN THE PAST TO RE-
STRICT WHEAT PRODUCTION AND TO SUPPORT WHEAT PRODUCERS'
INCOMES IN TIMES OF POOR SELLERS' MARKETS. THESE
MEASURES HAVE BEEN CHANGED IN LINE WITH CURRENT WORLD
MARKET CONDITIONS AND PROSPECTS. THE NATIONAL QUOTA
HAS INCREASED TO A VERY HIGH LEVEL AND DOES NOT
EFFECTIVELY LIMIT PRODUCTION. QUOTAS HAVE BEEN
SIGNIFICANTLY EASED AND THE FIRST ADVANCE PAYMENT TO
PRODUCERS WAS LIFTED BY A SPECIAL INCENTIVE PAYMENT FOR
THE FIRST TIME IN 15 YEARS TO \$1.20 PER BUSHEL FOR THE
1973/74 SEASON. FOR THE 1974/75 SEASON THE FIRST
ADVANCE HAS ALSO BEEN SET AT \$1.20 PER BUSHEL. THESE
MEASURES ARE DETERMINED ANNUALLY UNDER THE CURRENT WHEAT
STABILIZATION SCHEME WHICH RUNS TO MID-1979. THE
GOVERNMENT IS AT PRESENT CONSIDERING AN INDUSTRY REQUEST
THAT THE FIRST ADVANCE BE FURTHER INCREASED AND DELIVERY
QUOTAS BE SUSPENDED.

15. IN THE CURRENT EMERGENCY SITUATION, AUSTRALIA WILL
CONTRIBUTE AN ADDITIONAL 10N,000 TONS OF FOOD TO AID THE
MOST-SERIOUSLY-AFFECTED COUNTRIES IN 1974/75. CONTRIBU-
TIONS HAVE SO FAR BEEN OFFERED TO BANGLADESH (10,000
TONS), INDIA (20,000 TONS), AND PAKISTAN (15,000 TONS).
INCLUDING FAC ALLOCATIONS, TOTAL WHEAT SHIPMENTS BY
VOLUME WILL RISE 15 TO BANGLADESH FROM 1973/74, 67 TO
PAKISTAN AND TO 40,000 TONS FROM A SITUATION OF NO FOOD
AID TO INDIA IR 1973/74. FURTHER EMERGENCY ALLO-
CATIONS MADE UNDER THE U.N. SPECIAL PROGRAMME WILL BE
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ANNOUNCED AFTER OCTOBER. THE AUSTRALIAN GOVERNMENT IS CONSIDERING PROPOSALS FOR A SYSTEM OF INTERNATIONAL GRAIN RESERVES. THE PRIME MINISTER STATED IN HIS ADDRESS TO THE U.N. GENERAL ASSEMBLY OF 30 SEPTEMBER, 1974 THAT AUSTRALIA WILL WORK CONSTRUCTIVELY AND COOPERATIVELY TOWARDS IMPLEMENTATION OF SUCH A SYSTEM. AUSTRALIA WILL SEEK TO PLAY A CONSTRUCTIVE ROLE AT THE WORLD FOOD CONFERENCE AND WILL GIVE CAREFUL CONSIDERATION TO ANY PROPOSALS WHICH ARISE FROM IT, E.G., AS TO THE LEVEL OF FOOD AID.

16. FOOD AID IS ONLY ONE MEANS OF ASSISTING THE BALANCE OF PAYMENTS PROBLEMS OF MOST-SEVERELY-AFFECTED COUNTRIES. PROBLEMS REQUIRE BOTH LONGER-TERM AND BROADER-FRONTED SOLUTIONS. FOOD AID ALLOCATIONS WILL CONTINUE TO BE FLEXIBLE AND GIVE PRIORITY TO THE NEEDS OF MSAXJS. TURNER UNQUOTE INGERSOLL

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